

EXHIBIT

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DATE 1/26/09

HB 157

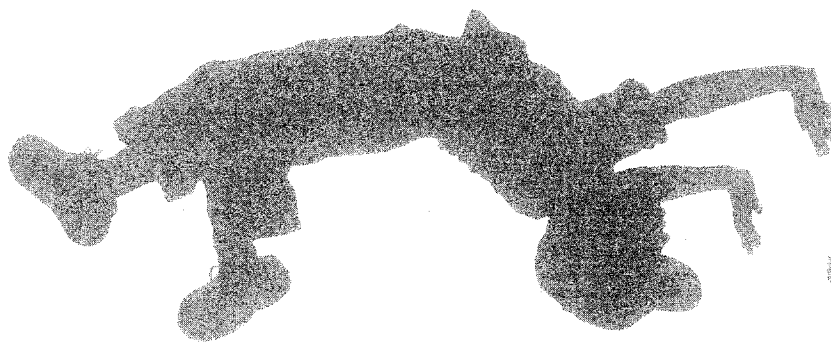
healthy  
MONTANA  
kids



Lucinda

for 1-155

# healthx MONTANA kids



# How Much Will it Cost and Where is the Money Coming From?

The cost will be about **\$22 million in state dollars** which will bring about **\$75 million in federal matching dollars** into Montana to cover kids and stimulate the state economy. The new federal dollars will also generate new state tax receipts, offsetting some of the state expenditures.

**The state dollars come from a tax that insurance companies already pay on premiums they collect in Montana.** Right now, that money goes into the general fund of state government. I-155 provides that 1/3 of those dollars would be put in a special account to be used only to cover more uninsured kids through The Healthy Montana Kids Plan.

# Facts About Uninsured Children

The uninsured rate for Montana kids in poverty has **increased from 19% to 29%** in the last five years, while nationally the number has dropped from 22% to 20%; the uninsured rate for all Montana kids has risen, too.

Montana is one of **only four states that deny SCHIP coverage to kids above 175% of poverty level**. We also have the lowest income ceiling in America for covering kids under Medicaid.

**Uninsured kids are 70% less likely to receive care for common conditions like ear infections, 30% less likely to receive necessary medical care when injured and three times more likely to lack a regular course of care.**

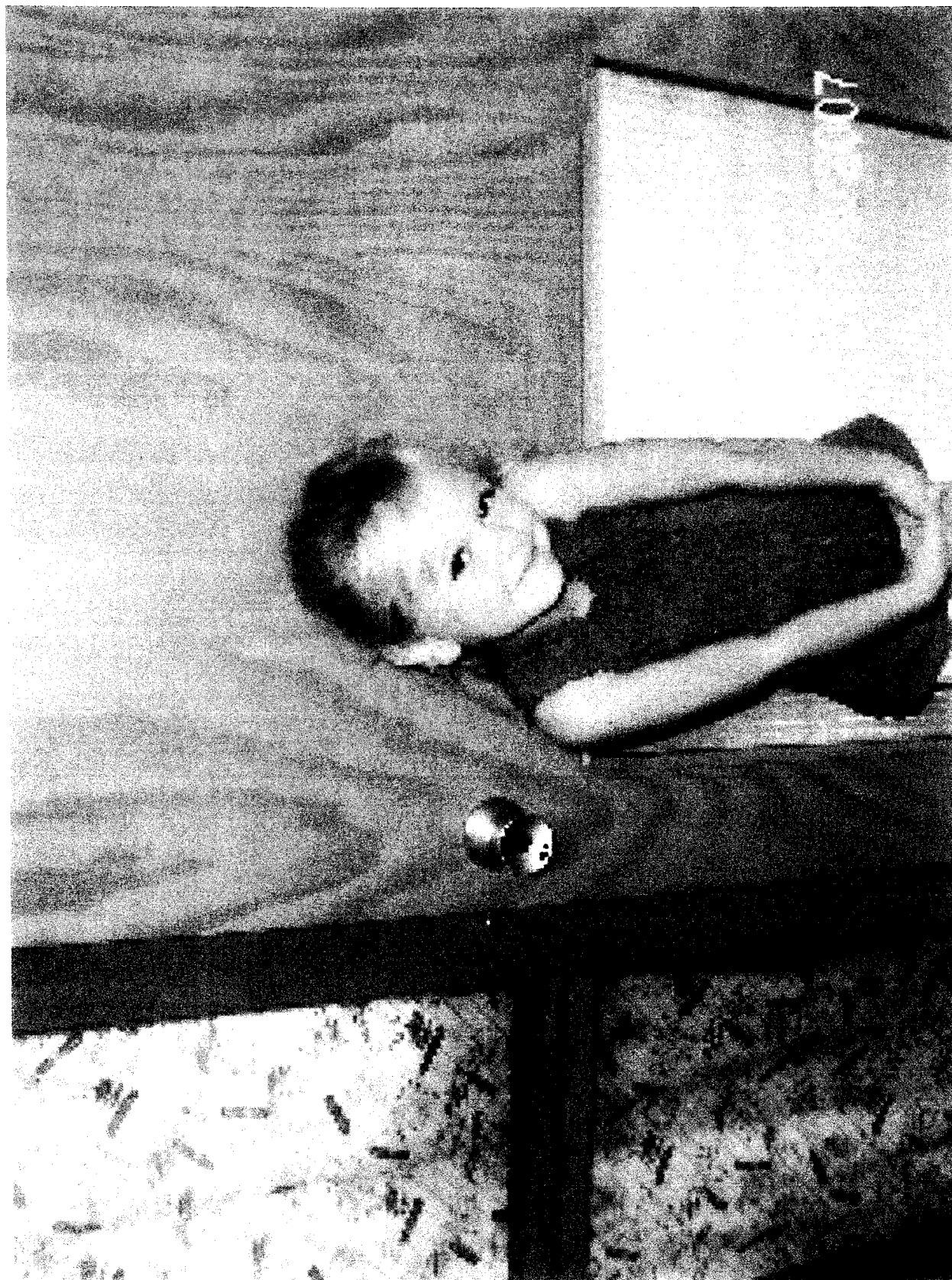
Among children hospitalized for injuries, **uninsured children are twice as likely to die as insured children**, health insurance reduces overall incidence of childhood death by **10-15%**



# Facts About Uninsured Children

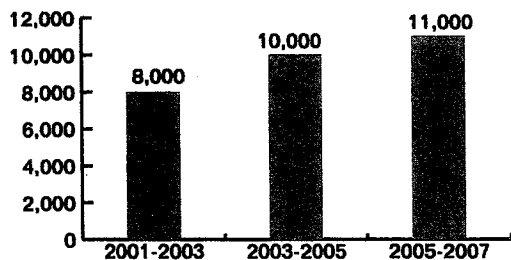
## (cont.)

- ✱ Parents of uninsured children are seven times more likely to delay getting medical treatment for their child.
- ✱ The early, preventative treatment that insured children receive is less expensive than the late stage treatment that uninsured children receive. For example, every dollar invested in immunizations saves \$13 in future medical costs.
- ✱ Children with health insurance show a 68% improvement in paying attention in school and keeping up with school activities.
- ✱ Insuring a child costs the state about \$1700 per year, half the cost of covering an adult.
- ✱ Children with insurance show a 25% improvement in overall health.



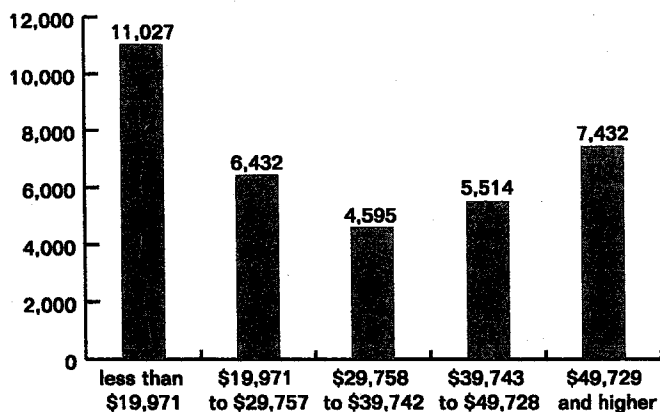
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**Figure 1**  
**Number of Uninsured Montana Children**  
**Under 19 Years of Age Below the Poverty Level**

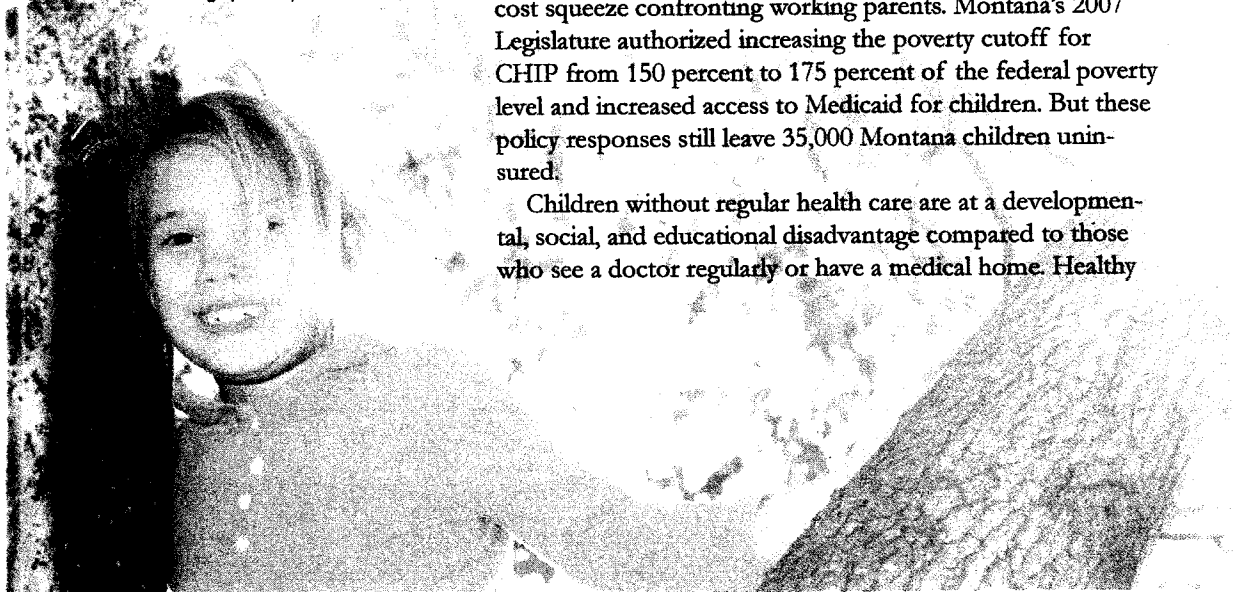


Sources: U.S. Census Bureau and Annie E. Casey Foundation, [www.aecf.org](http://www.aecf.org).

**Figure 2**  
**Number of Uninsured Montana Children Under**  
**19 Years of Age by Annual Income Levels for a**  
**Family of Four, 2004-2006**



Sources: U.S. Census Bureau; Annie E. Casey Foundation, [www.aecf.org](http://www.aecf.org); and Congressional Research Service, [www.loc.gov/crsinfo/](http://www.loc.gov/crsinfo/)



# Economic Returns for Investing in Children's Health

*by Steve Seninger*

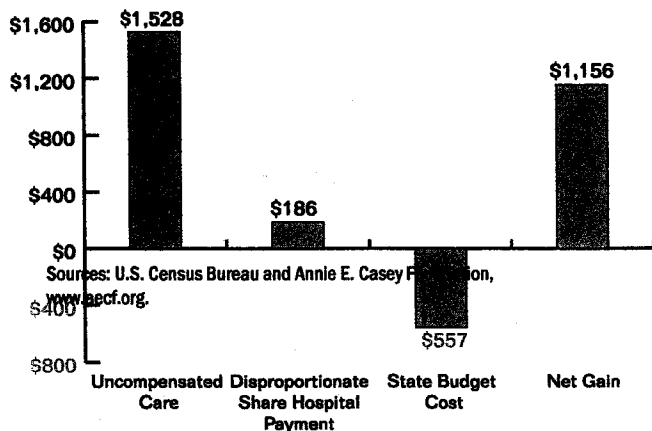
Montana's uninsured rate for children is one of the highest in the country, with 14 to 16 percent of the state's children lacking private or public health insurance. Despite a strong state economy, the rate of uninsured children has worsened in recent years. In addition, Montana is one of four states that does not provide Children's Health Insurance Program (CHIP) coverage to children above 175 percent of the federal poverty level and has the lowest income ceiling in the nation for covering kids under Medicaid. That translates to an unhealthy start for thousands of Montana children and hidden costs of \$240 million for Montana providers, employers, and consumers.

Lack of health care access is particularly severe for low-income children below the federal poverty level—\$21,200 for a family of four (Figure 1). But not all of the state's uninsured children come from low-income households. Almost 13,000 uninsured Montana children live in households with incomes above Montana's median income of \$40,600 (Figure 2.)

Montana state government has initiated several responses to the state's high uninsured rate. Premium assistance and tax credits to small employers under the Insure Montana Program are designed to alleviate the health insurance premium cost squeeze confronting working parents. Montana's 2007 Legislature authorized increasing the poverty cutoff for CHIP from 150 percent to 175 percent of the federal poverty level and increased access to Medicaid for children. But these policy responses still leave 35,000 Montana children uninsured.

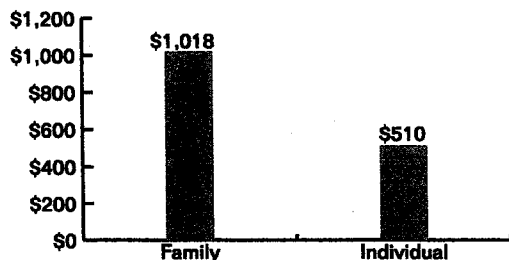
Children without regular health care are at a developmental, social, and educational disadvantage compared to those who see a doctor regularly or have a medical home. Healthy

**Figure 3**  
**Projected Annual Savings and State Budget Costs**  
**for Insuring More Montana Children, 2012**



Sources: Montana Kids Count, Bureau of Business and Economic Research, The University of Montana.

**Figure 4**  
**Projected Annual Cost Savings on**  
**Employer Health Insurance Premiums**  
**for Insuring More Montana Children, 2012**



Sources: Montana Kids Count, Bureau of Business and Economic Research, The University of Montana.

children achieve better educational outcomes with a higher likelihood of becoming productive citizens prepared for work, public service, and overall life experiences.

A currently active proposal, the Healthy Montana Kids initiative, aims to provide health care coverage to many of Montana's uninsured children. The following economic analysis uses the initiative as a case study to determine the benefits and costs of insuring more of Montana's children.

Under Healthy Kids Montana, nearly 30,000 children would be added to public and private insurance programs. This approach would maintain a mix of government and employer-sponsored health insurance coverage, leaving 60 percent of insured kids covered by private insurance.

The Healthy Montana Kids initiative would increase the income eligibility level for CHIP to 250 percent of the federal poverty level, or \$53,000 for a family of four. CHIP currently covers about 16,600 children now at an income-eligibility ceiling of 175 percent of the poverty level. Medicaid eligibility would also increase and help pay the costs of adding children to their parents' health insurance policy (if the family falls under the income ceiling). The CHIP and Medicaid expansions would cost the state about \$20 million per year but would provide over \$70 million per year in federal matching funds for health care because the federal government pays 80 percent of CHIP and 60 percent of Medicaid.

The initiative also calls for an active enrollment process that works with hospitals, schools, and others to enroll all eligible uninsured children.

### Benefits and Cost Savings from Insuring More Children

Analysis of costs and benefits to Montana can be illustrated with the Healthy Montana Kids initiative. State budget costs along with federal match dollars coming into the Montana economy should be examined. It is also important to identify the difference between state budget spending for the initiative compared to the costs and additional spending that would occur if Montana children continue to be uninsured.

Every year, uncompensated health care costs the state's health care providers, employers, and consumers more than \$240 million. Uncompensated care is medical care received but not fully paid for, either out-of-pocket by individuals or by a private or public insurance payer. A small percentage of this amount is covered by philanthropy and disproportionate share hospital payments (payments intended to offset losses hospitals incur when large shares of their patients are unable to pay their hospital bills). However, the bulk of this bill is paid by cost shifts onto consumers and employers through higher health insurance premiums (Hadley and Holahan).

Looking over the next several years to 2012, Montana's annual uncompensated care costs show a price tag of \$1,528 for every one of the approximately 170,000 uninsured Montanans throughout the state. An additional \$186 represents federal disproportionate share hospital payments to Montana providers based on the number of low-income patients the various institutions serve.

Cost savings from reducing uncompensated care by insuring more children can be related to Montana's CHIP cost per child. Cost and cost savings estimates are based on state fiscal year 2012 numbers in view of the initiative's timing, the potential actions by the Montana Legislature, and the anticipated changes in federal funding when a new national administration is in place after the November 2008 elections.

Projected costs from current baseline program numbers show a CHIP cost per child in 2012 of \$2,535, with Montana's 20 percent share equal to \$557 per child. These costs



## Insuring more Montana children offers a positive economic payback of more than \$2.50 to Montanans for every state \$1 expended. ...

per child are compared to gains via net savings of \$1,528 in uncompensated care costs per newly insured child and \$186 savings on federal taxes for financing disproportionate share hospital payments to Montana, yielding a positive net gain per newly insured child of \$1,156.

The net gains per newly insured child are significant, particularly when compared to the state budget costs of \$557 per child. Such savings can be aggregated over the almost 30,000 newly insured children and compared to the state budget costs of covering these children.

These cost savings shown in Figure 3 also reduce the rate at which health insurance premiums rise through reductions in cost shifting of uncompensated care costs onto privately insured health care consumers. Through reducing the rate at which premiums increase, the cost savings' impact to employers and workers is shown in Figure 4. Allocating two-thirds of the savings to family plans and another one-third to employee-only coverage results in annual savings or premium reductions of \$1,018 and \$510, offering some cost relief to employers.

Insuring 30,000 more Montana children will reduce uncompensated care costs, leading to reductions in private health insurance premium growth of \$510 per year for an individual policy and \$1,018 per year for a family policy.

There are significant aggregate savings for all Montana shareholders when applying the newly-insured child savings in uncompensated care to the 30,000 kids who would now be covered. These annual savings include savings to employers of \$25 million, \$5 million in savings to households with private insurance and \$12 million to state employee plans. Another \$5 million in reduced federal taxes due to lower federal disproportionate share payments to Montana brings the total aggregate savings per year to \$47 million.

### State Budget Costs

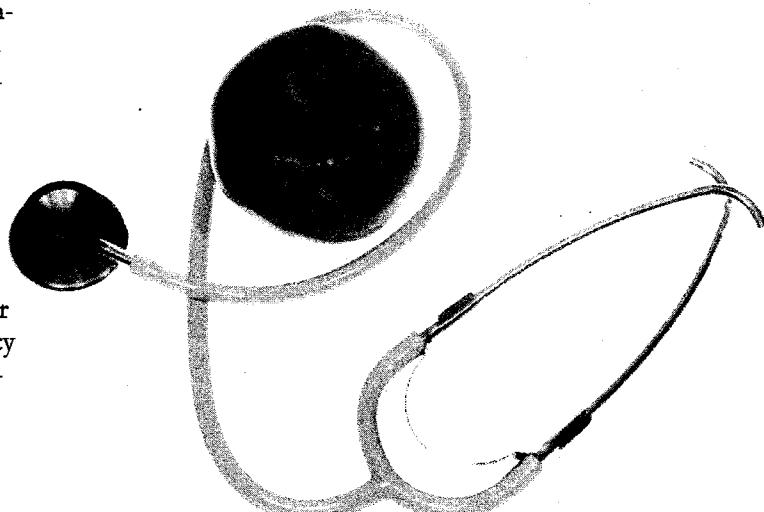
Two underlying factors that determine state budget costs are: 1) the number of uninsured children who would be enrolled and 2) the number of privately-insured children who are currently insured through their parents' employer-based or individually-purchased policy whose parents would drop them from their private cov-

erage and transfer them to CHIP, Medicaid, or employer-based coverage at or below public coverage premium costs.

Transfer of coverage through substituting public for private insurance is often referred to as "crowd-out" when individuals move to a public program from private health insurance (employer-sponsored or private non-group insurance). State program data on transfer rates for CHIP are very different from some national statistical studies which vary widely based on the data used, the years examined, whether the focus is on children or adults, the modeling technique and the assumptions made (Blewett and Call).

Calculating the number of children who potentially might transfer from private health insurance to public coverage is of prime importance when analyzing the impact of any state health insurance reform on the state budget. Estimates of the transfer rate for Montana's CHIP program range from 7 percent to 25 percent. The higher-end estimate of 25 percent is based on survey data from recent enrollees in Montana's expansion of CHIP to the 175 percent federal poverty interval, while 7 percent is based on Montana fiscal year 2007 program data. An intermediate rate of 14 percent rate comes from U.S. Congressional Budget Office estimates for CHIP data for a number of states (Woodridge, et. al.)

The 14 percent transfer rate is a reasonable estimate, particularly in view of Montana's high percentage of self-employed workers and small-employer firms, both of which make affordable health insurance a major problem for Montana's uninsured children.



Using projected fiscal year 2012 CHIP costs per child (\$2,535), a projected private insurance premium cost (\$992) per child covered by the employer sponsored option (with one-half of the transfers going to this option) yields a total annual state budget cost of \$20.3 million, with the experience-based transfer rate of 14 percent.

The annual state budget cost of \$20.3 million brings in 30,000 uninsured kids and also allows for 8,000 currently insured children on employer-sponsored plans who are below the 250 percent federal poverty eligibility cutoff who may transfer from private coverage to the initiative program.

The annual \$20.3 million state budget cost would be financed by an initiative-designated \$20 million as a portion of Montana Insurance Licensing fees into a special revenue account.

Matching federal dollars of more than \$70 million annually for the state money spent on newly insured kids in Medicaid and CHIP represent new outside spending into the state economy. This newly created outside spending has a multiplier effect on Montana labor income that, as a new element in the state's tax base, will generate another \$5.5 million in state income tax revenues every year.

## Summary

Insuring more Montana children offers a positive economic payback of more than \$2.50 to Montanans for every state \$1 expended, a rate of return that compliments other

positive impacts of more health investment in the state's children. Other returns include better school performance with more than 20 percent gains on measures of attention and concentration in the classroom for CHIP-enrolled children compared to their performance before enrollment and on keeping up with school activities according to research by the Managed Risk Medical Insurance Board, 2002. □

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*Steve Seninger is a research professor at the Bureau of Business and Economic Research.*

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## References

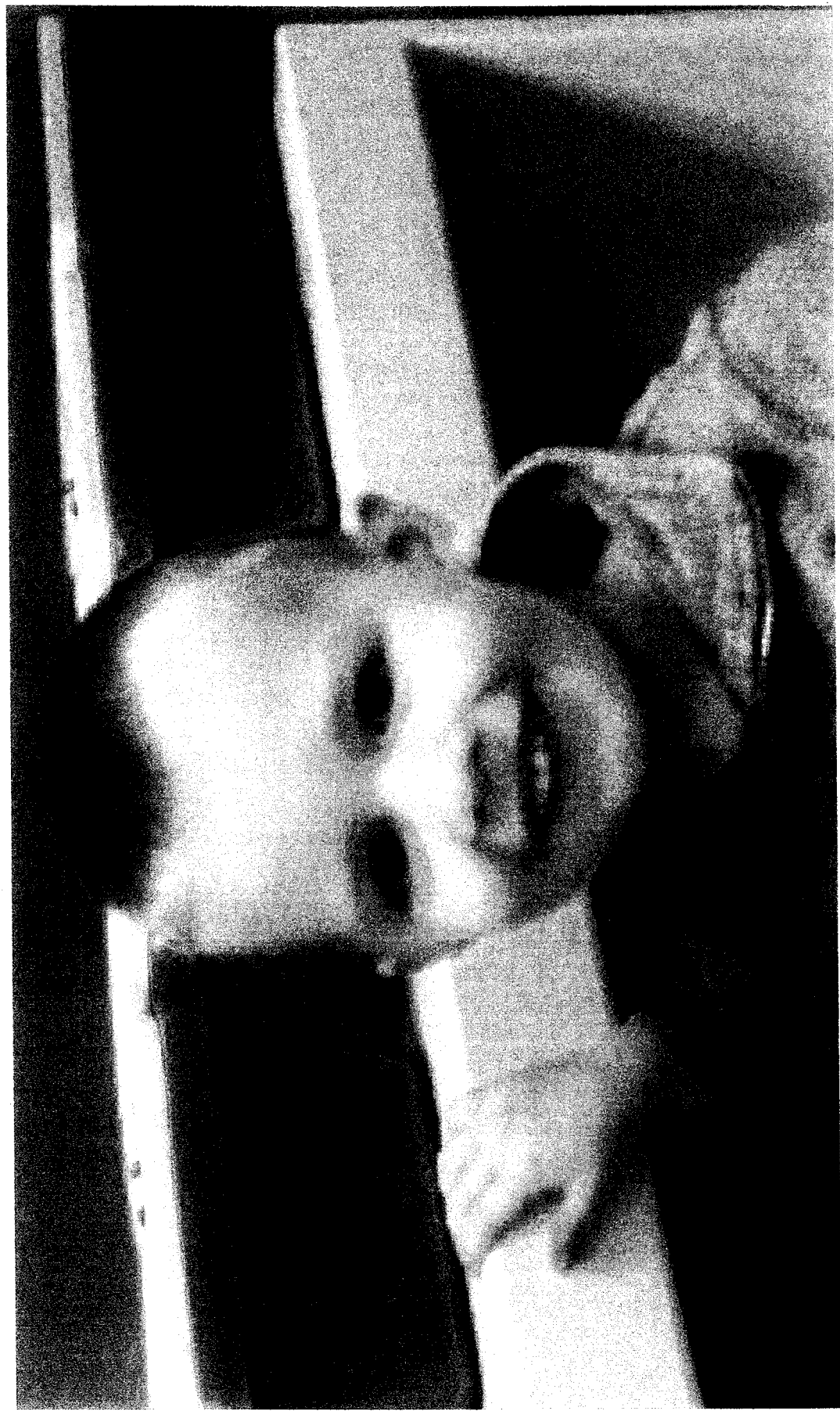
Hadley, Jack and Holahan, John. "Covering the Uninsured: How Much Would It Cost?" *Health Affairs*, W-3 (June 2003), pp. 250-265.

"Paying a Premium: The Added Cost of Care for the Uninsured," *Families USA*, June 2005, [www.familiesusa.org](http://www.familiesusa.org).

Blewett and Call. "Revisiting Crowd-Out," Robert Wood Johnson Foundation, 2007.

Ku, Leighton. "Crowd-Out is Not the Same as Voluntarily Dropping Private Health Insurance for Public Program Coverage." *Center on Budget and Policy Priorities*, [www.cbpp.org](http://www.cbpp.org).





Gabriel

# Health Insurance

Health insurance coverage for Montana children has decreased over the past four years according to U.S. Census data. The percent of Montana children of all ages lacking private or public health insurance went from 14 to 16 percent over a four-year period ending in 2005. Children below the federal poverty level had some of the biggest declines in health insurance coverage, going from an uninsured rate of 19 percent four years ago to 29 percent by 2005. This change represents 4,000 more low-income children joining the ranks of Montana's uninsured.

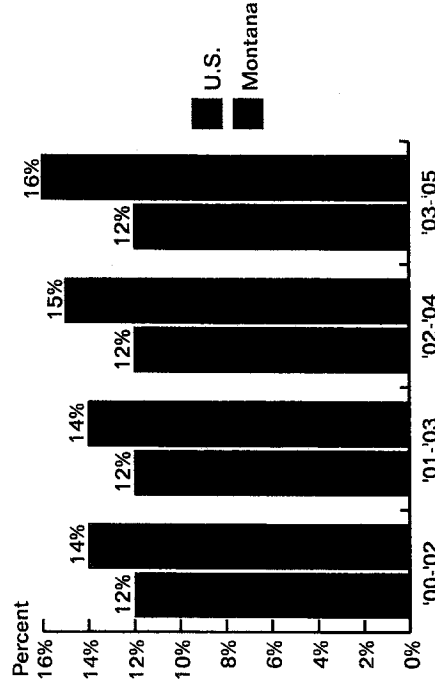
Double-digit increases in health insurance and increased employee shares of premiums for working parents have contributed on the cost side to the increasing number of uninsured kids and families. Montana has responded to higher uninsured rates through initiation of the Insure Montana program for small employers and through expanded coverage of the Children's Health Insurance Program and increased access to the Medicaid program for children.

Figure 1 compares uninsured trends for Montana children to the rest of the nation using three-year averages of Census Bureau survey data. The uninsured rate for kids nationally has been essentially constant over a four-year period ending in 2005. Health insurance coverage for Montana children deteriorated over the same period, with the state's uninsured rate for kids increasing from 14 percent to 16 percent by 2005. This uninsured rate represents 37,000 Montana children without private or public health insurance.

## Decreased Insurance Coverage for Low-Income Children

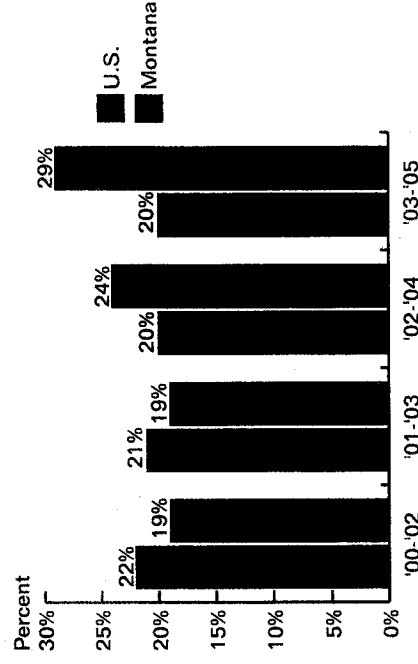
Declines in health care access have especially affected low-income children in Montana (Figures 2 & 3). The uninsured rate for Montana kids living in households that are below the federally-defined poverty level has increased from 19 percent to 29 percent, a state rate that is 1.5 times higher than the national rate. Montana's increase of 10 percentage points in the uninsured rate for kids below poverty is in contrast to 27 other states where the uninsured rate for kids below poverty decreased over the same period. Figure 4 breaks down the uninsured rates for different poverty levels and shows that although most of the uninsured children live in families at or below the FPL, many are living in families above the FPL. The numbers of children without insurance living in families between 100 and 150 percent of the FPL has been the impetus for many states to increase income eligibility for CHIP. Nearly 7,000 uninsured children in Montana live in families with incomes of \$50,000 and above.

**Figure 1**  
Percent of Children 18 and Under Without Health Insurance, Montana and U.S. (Three-Year Averages)



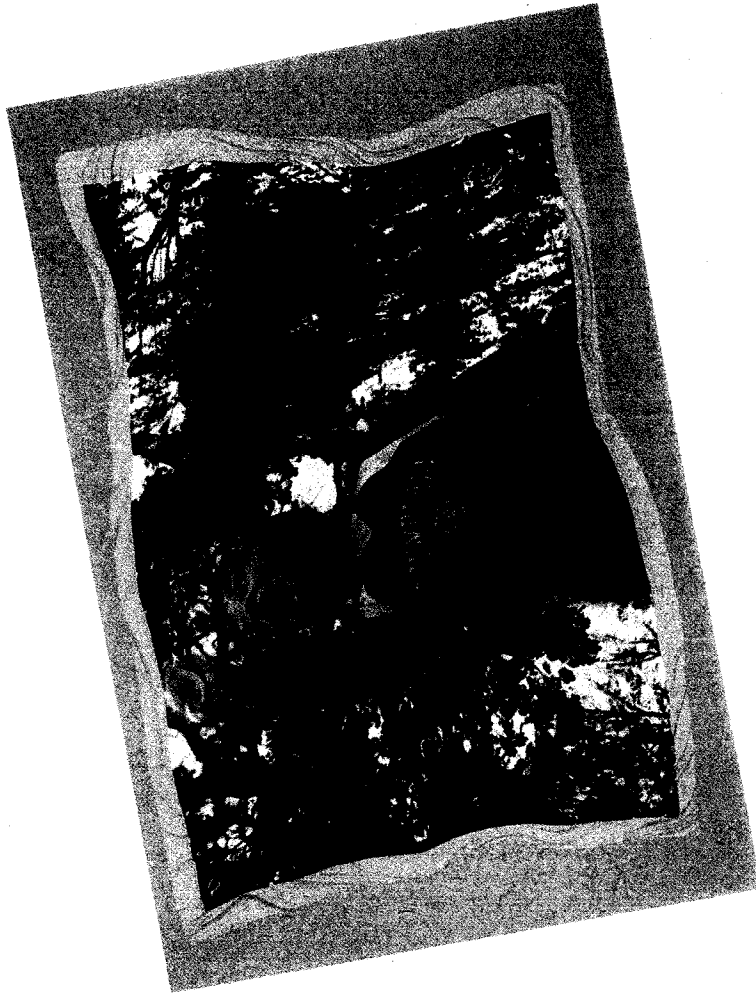
Sources: U.S. Census Bureau, three-year averaging of Census Population Survey Data, Annie E. Casey Foundation, [www.aecf.org](http://www.aecf.org).

**Figure 2**  
Percent of Children 18 and Under Below the Federal Poverty Level Without Health Insurance, Montana and U.S. (Three-Year Averages)



Sources: U.S. Census Bureau, three-year averaging of Census Population Survey Data, Annie E. Casey Foundation, [www.aecf.org](http://www.aecf.org).





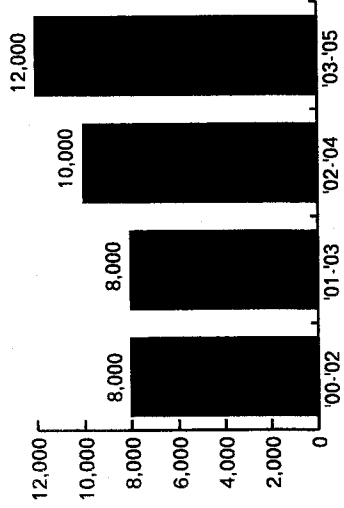
Age breakdowns of the data show that many of the increases in the number of uninsured children are for those 5 years of age and under. Uninsured rates for children in these early, critical years of physical and mental development have increased from 13 percent in 2000 to 17 percent by 2005. Children 5 years of age and younger comprise about one-fourth of the 12,000 kids below poverty without health insurance.

### Budget Impact of Expanding Coverage

Low-wage jobs and unaffordable health insurance contribute to the increased lack of health insurance for Montana kids and especially low-income kids. Although the state's unemployment rates are at historic lows, worker earnings have not grown dramatically during the state's recent economic expansion. This has been especially true in mining and oil and gas where there have not been a large number of new jobs even though these are usually well-paying jobs.

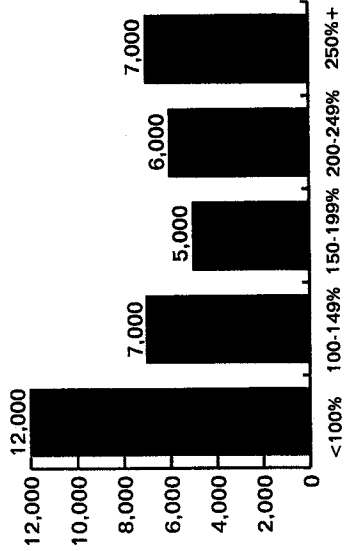
Higher health insurance premiums and a shifting of those costs to workers by employers offering health insurance are factors contributing to higher uninsured rates for Montana's children. A recent employer survey conducted by the UM Bureau of Business and Economic Research shows that employers experienced an 18 percent increase in health insurance premium costs. Workers had increases in their share of employer-offered insurance plans go up by 2 to 3 times the employer's increase, a cost shift that makes job-based health insurance increasingly unaffordable.

**Figure 3**  
Number of Montana Children Below Poverty Level (<100%FPL) Without Health Insurance (Three-Year Averages)



Sources: U.S. Census Bureau, three-year averaging of Census Population Survey Data, Annie E. Casey Foundation, [www.aecf.org](http://www.aecf.org).

**Figure 4**  
Number of Montana Children 18 and Under at Different Poverty Levels Without Health Insurance (2003-2005 averages)



Sources: U.S. Census Bureau, three-year averaging of Census Population Survey Data, Annie E. Casey Foundation, [www.aecf.org](http://www.aecf.org).

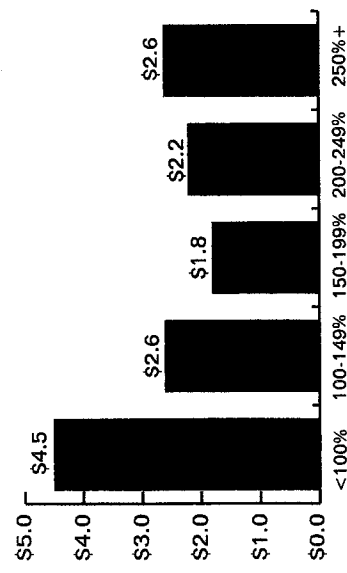
The state of Montana has initiated several positive responses to the state's high uninsured rate. Premium assistance and tax credits to small employers under the Insure Montana program are designed to alleviate the health insurance premium cost squeeze confronting working parents. Planned expansions in the state's Children's Health Insurance Program and increased access to Medicaid for children aged 6 to 19 should help lower the uninsured rate for Montana kids, especially those in low-income households.

These new initiatives, the results from which are only just beginning to unfold, will affect some but not all of the 37,000 children in Montana without health insurance. Significant expansions in CHIP would go a long way toward improving health care access for Montana kids, particularly for the 24,000 children living in households below 200 percent of the federal poverty level.

State budget dollars required for providing health care access to the majority of children in Montana can be calculated using \$1,734 per child, with Montana's match being \$371. These amounts are based on state fiscal year 2006 CHIP program data. Thus, the cost to the state would be \$4.5 million to insure the 12,000 children below 100 percent of the federal poverty level. To insure the 12,000 more Montana kids who are between 100 percent and 200 percent of the federal poverty level, the cost to the state would be \$4.4 million (Figure 5).

Another 6,000 Montana children would have health insurance if the eligibility cutoff were raised from 200 percent to 250 percent of the federal poverty level and would cost an additional \$2.2 million in state funds.

**Figure 5**  
**State Dollars Required to Expand CHIP for**  
**Montana Children Without Health Insurance,**  
**by Federal Poverty Level Thresholds, 2005**  
**(Millions of Dollars)**



Sources: Author's calculations and Montana Children's Health Insurance Plan, Fiscal Year 2006.

Coverage of kids at 250 percent of the federal poverty level and above would enroll another 7,000 children and cost another \$2.6 million in state dollars. Extending coverage to all Montana children 18 years of age and under would cost \$13.7 million.

## Economic Benefits

Lower health care costs for children, cost savings on employer-based health insurance premiums, and positive impacts on the state economy through outside federal dollars are direct benefits from extending health insurance coverage to all of Montana's children.

A significant portion of the state's costs will be offset by savings from children receiving regular checkups and health care when it is needed and not when a health problem has become extremely serious. Stability in health care access and establishment of a "medical home" for children will help reduce the need for expensive hospitalizations and emergency room visits that will save the state and consumers money. In some states with health insurance coverage for all children, cost savings are estimated at 70 percent of the combined federal and state dollar outlay for program expansion ([www.familiesusa.org](http://www.familiesusa.org)).

Health insurance premiums for families who have insurance through their employers are, on average, 17 percent higher due to the cost of health care for the uninsured, according to 2005 estimates ([www.familiesusa.org](http://www.familiesusa.org)). If Montana expanded CHIP to cover all uninsured children, it would reduce the number of uninsured persons in the state, which would in turn reduce premiums for employer-based insurance.

Expansion of children's coverage through CHIP brings in money in the form of federal matching dollars. These dollars contribute to economic growth just as visits by out-of-state tourists or the sale of manufactured products to customers outside Montana bring dollars into the state's economy. The estimated \$13.7 million in state outlays for covering all children would bring in almost \$55 million in federal dollars, providing a powerful positive stimulus to Montana's economy. These outside dollars would have a cumulative impact of \$60 million on labor income throughout the Montana economy, generating state income taxes that would offset part of the state budget outlay from expanding the Children's Health Insurance Program.

Expanding health insurance coverage to all Montana children offers benefits for everyone in Montana. It offers immediate help to children in the state who are uninsured today, and contributes to their healthy development and future role as citizens and members of the labor force. At the same time, reducing the number of uninsured in Montana will reduce the premiums paid by workers who have employer-based coverage now. And finally, full coverage of all Montana children will provide a valuable economic stimulus to the state's economy.



Justin

Justin  
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## Welcome to Healthy Montana Kids!

Why should we enact the Healthy Montana Kids Plan?

The uninsured rate for Montana kids in poverty has increased from 19% to 29% in the last five years, while nationally the number has dropped from 22% to 20%; the uninsured rate for all Montana kids has risen, too.

Montana has one of the highest rates of uninsured children in America, yet Montana is one of only four states that deny SCHIP coverage to kids above 175% of the federal poverty level. We also have the lowest income ceiling in America for covering kids under Medicaid.

Uninsured kids are 70% less likely to receive care for common conditions like ear infections, 30% less likely to receive necessary medical care when injured, and three times more likely to lack a regular course of care.

Among children hospitalized for injuries, uninsured children are twice as likely to die as insured children; health insurance reduces overall incidence of childhood death by 10-15%.

20% of uninsured children have untreated vision problems.

Parents of uninsured children are seven times more likely to delay getting medical treatment for their child.

Children with insurance show a 25% improvement in overall health.

The early, preventative treatment that insured children get is less expensive than the late stage treatment that uninsured children get.

For example, every dollar invested in immunizations saves \$13 in future medical costs.



Kids without health insurance miss school far more often than insured kids.

Children with health insurance show a 63% improvement in paying attention in school and keeping up with school activities.

Insuring a child costs the state about \$1700 per year, half the cost of covering an adult.

For every dollar Montana invests in covering kids under the Healthy Montana Kids Plan, we will get 3 or 4 dollars from the federal government, a direct infusion into local economies.

We can cover nearly all kids in Montana for about \$20 million, a fraction of the state budget surplus, while bringing about \$70 million in federal dollars into the state.

Polling shows nearly 70% of Montanans support covering all kids now.

The stars are lined up to do this now: there is national and state political momentum, Senator Baucus is leading a congressional effort, and we have a strong state surplus. If not now, when?

The Healthy Montana Kids Plan will: Provide comprehensive health coverage to the 30,000 uninsured Montana children who live in families that make up to about \$50,000 per year.

Increase eligibility for the Children's Health Insurance Program and children's coverage under Montana's Medicaid program.

Create a new "storefront" called the Healthy Montana Kids Plan that embraces CHIP and Medicaid for children, eliminating any stigma associated with these older public programs.

Allow eligible kids to be placed on a parent's employer-sponsored plan, saving the state money and covering more kids.

Create an "active enrollment" process that works with hospitals, schools and others to enroll all eligible uninsured children.

Channel 50% of existing premium taxes paid by insurance companies to the state of Montana (about \$20 million) into a special revenue account that can only be used to provide new coverage for uninsured children.

Draw into Montana the maximum amount of federal matching funds available for covering uninsured children (about \$70 million in additional dollars).



Chelsea